

## Chairman JoAnn Johnson testifies

Chairman JoAnn Johnson testified June 7, 2007, before the U.S. House of Representatives Subcommittee on Financial Institutions and Consumer Credit on proposed Federal Reserve Board revisions to Regulation Z, credit card disclosure and practices and measures by credit card issuers to improve consumer protection.

Johnson commended Congress for examining these vital issues and emphasized several ways NCUA and the credit union community are protecting consumers while offering innovative credit card products and services.

“Our view is credit card services provided by credit unions to their members are being done in a sound, beneficial manner,” Chairman Johnson said. “Are there improvements, particularly in the area of disclosures that can be made? Certainly, and we look



Photo by David Klavitter/CUNA

Washington, D.C. June 7, 2007—Chairman JoAnn Johnson greets Representative Carolyn B. Maloney (NY), Chair of the U.S. House of Representatives Subcommittee on Financial Institutions and Consumer Credit, prior to testifying on proposed revisions to Regulation Z relating to credit card disclosures and other practices, and measures credit card issuers have made or will make to improve consumer protection.

forward to working with Congress, the Fed and other agencies to make certain that consumers are well informed and

protected so they can wisely and prudently use their credit.”

The Chairman also stressed NCUA’s important role of ensuring protections such as Regulation Z are enforced in a thorough, reasonable manner.

“Through its examination and complaint monitoring process, NCUA plays a significant role in making certain that consumers are appropriately  
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## Army reservist recognizes NCUA

U.S. Army Colonel Ronald Jones presented the United States flag to Chairman JoAnn Johnson at NCUA’s 22nd Annual Award ceremony to demonstrate his appreciation to the agency for its ongoing support during his extended military assignment. The award ceremony is an annual agency event that honors employees who have displayed superior work performance.



NCUA Headquarters, May 15, 2007—The NCUA Board receives a United States flag flown over Headquarters at the Multi-National Corps in Iraq from Colonel Ronald Jones.

With nearly 22 years at NCUA, Jones concurrently serves in the U.S. Army Reserves and has been in the Reserves for over 26 years. As an NCUA economic development specialist, Jones works with small and low-income credit unions, and assigned to Corps headquarters in Iraq in 2006, he worked in economic development

and helped establish micro-finance enterprises. Jones also served as a civilian-military operations coordinator in Baghdad.

Colonel Jones returned from active military duty January 11, 2007, and has resumed his role as an NCUA economic development specialist in Chicago.

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# Embedded options and pre-purchase analysis

Credit unions are expected to exercise due diligence when purchasing investments, including understanding the impact of embedded options on investments. Simple examples of investments with embedded options include a callable agency bond and a mortgage-backed security.

The embedded option in a callable agency bond is a call option, giving the issuing agency the right, but not the obligation, to retire the entire principal balance of the bond before maturity.

The prepayment option embedded in a mortgage-backed security is a call option to retire part of the principal outstanding each month, reflecting the right of a borrower to pay off a mortgage early.

As financial creativity evolves, the complexity of embedded options has increased over time. Collateralized mortgage obligations (CMOs) are multi-class mortgage-backed securities. Some CMOs are very complex. For example, exchangeable CMOs represent beneficial ownership interests in two or more CMOs.

An exchangeable CMO may include an interest in a stripped mortgage backed security (SMBS), such as an interest only (IO) or principal only (PO) strip.

NCUA Rules and Regulations prohibit federal credit unions from investing in SMBS, since IO and PO securities generally have a high level of risk. The rules provide an exception for exchangeable CMOs meeting certain safety and soundness requirements. Credit unions should review rule 703.16(e) and be comfortable meeting the requirements of the rule before purchasing an exchangeable CMO.

A class of CMOs called non-sticky jump (NSJ) CMOs can be particularly risky. NSJ CMOs are allocated differing amounts of cash flows from the underlying mortgages, based on complex rules designed to transfer prepayment risk away from other classes of CMOs.

Given the high risk of securities such as NSJ CMOs, it is important for credit unions to perform rigorous pre-purchase analysis sufficient to adequately describe

the entire instrument being considered.

Adequate due diligence is especially important at a time when the complexity of embedded options is increasing, and the potential impact of embedded options on a credit union's portfolio requires adequate attention.

## NCUA issues year-end 2006 FICU statistics

The 2006 year-end statistical report includes aggregate financial and statistical information from the nation's federally insured credit unions. This summation of year-end 2006 Call Report data provides tables classified by peer group in five sections—federally insured credit unions, federal credit unions, state-chartered federally insured credit unions, corporate credit unions and alphabetical state tables.

The document is available online at <http://www.ncua.gov/ReportsAndPlans/statistics/statistics.html>. A hardcopy directory is available for \$5.50 from NCUA Publications at 703-518-6340.

# NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

JoAnn Johnson, *Chairman*  
Rodney E. Hood, *Vice Chairman*  
Christiane Gigi Hyland, *Board Member*

Information about NCUA and its services may be secured by contacting 703-518-6330.

Office of Public & Congressional Affairs  
Cherie Umbel, *Editor*

National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

### Small Credit Union Workshops

NCUA's Office of Small Credit Union Initiatives hosts a number of Small Credit Union Workshops every year. Upcoming workshops will be held in the following locations.

Cincinnati, OH August 2  
Silver Spring, MD August 4  
Savannah, GA August 25

Registration forms are online at <http://www.ncua.gov/CreditUnionDevelopment/Events/Index.htm>

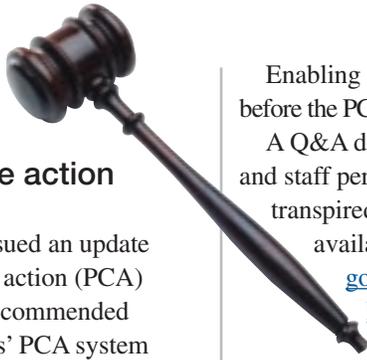
For information on all workshops, call 703-518-6610 or visit <http://www.ncua.gov/CreditUnionDevelopment/Index.htm>.



Visit the NCUA website  
<http://www.ncua.gov>  
to get the latest  
information directly  
from NCUA.



## Board actions June 21, 2007



### Prompt corrective action reform proposed

The NCUA Board issued an update to its prompt corrective action (PCA) reform proposal. The recommended changes to credit unions' PCA system would allow for more active management of capital levels by credit unions, ensure PCA is more risk-based and align NCUA's PCA system with sound risk management principles.

Originally introduced in 2000, PCA was mandated by the Credit Union Membership Access Act of 1998 to ensure problems in federally insured credit unions are resolved with the least economic impact to the National Credit Union Share Insurance Fund (NCUSIF). However, statutory limitations resulted in a rigid one-size-fits-all PCA system. Based on experience, a more risk-based PCA reform system proposal was issued in March 2005. With input from the U.S. Treasury, the proposal is being revised to:

- Raise the proposed new leverage ratio thresholds for all categories except credit unions critically undercapitalized by 25 basis points.
- Increase the risk-based net worth threshold to 10 from 8 percent for the well-capitalized category.
- Recommend elimination of the earnings retention requirement, substituting discretionary authority for NCUA to require a net worth restoration plan for adequately capitalized credit unions when needed.
- Limit the recommended authority for NCUA to waive submission of a net worth restoration plan to cases involving a major disaster.

The proposed PCA system is rigorous and more effective at relating risk to capital levels. It is more aggressive in relation to thinly capitalized institutions and it provides NCUA with more supervisory tools to address capital weakness. What's more, the proposed PCA reform balances the need for healthy credit unions to utilize capital efficiently to best serve members and maintain safety and soundness.

Enabling legislation must be enacted before the PCA proposal can be implemented.

A Q&A discussion by the NCUA Board and staff pertaining to PCA reform that transpired during the Board meeting is available online at [http://www.ncua.gov/NCUABoard/board\\_reports/PCABoardQA-June.pdf](http://www.ncua.gov/NCUABoard/board_reports/PCABoardQA-June.pdf).

### Eligible obligations rule amendment proposed

The NCUA Board issued a proposed change that would add a conflict of interest provision to the eligible obligations rule, similar to the conflict of interest provision in the general lending regulation, to help ensure decisions

regarding the purchase, sale and pledge of eligible obligations are made in the best interest of a federal credit union (FCU).

As proposed, an FCU official, employee or immediate family member may not receive direct or indirect commission, fee or other compensation in connection with eligible obligation transactions, which includes the buying and selling of FCU member loans. The proposal was issued with a 60-day comment period.

Rule changes are effective upon publication in the *Federal Register*.

**Board votes are unanimous unless otherwise indicated**

## News briefs

### NCUA's Consumer Assistance Hotline

NCUA has a toll-free consumer complaint line available 24/7 at 1-800-755-1030 and locally 703-518-6339. Credit union members can leave a recorded message outside of normal business hours.

### Insurance Fund

The National Credit Union Share Insurance Fund (NCUSIF) equity level was 1.32 percent May 31, 2007, based on December year-end 2006 insured shares. Seven credit unions had failed—5 assisted mergers and 2 involuntary liquidations—and losses through May totaled \$2.3 million. NCUSIF reserves for potential losses were increased \$2.5 million during May to accommodate anticipated losses.

### Regulatory Alert: 07-RA-04

Notifies federally insured credit unions of the latest issue of *SAR Activity Review—Trends, Tips & Issues* published in May 2007 by FinCEN. The publication provides information related to the activity and filing of Suspicious Activity Reports (SARs). This issue includes examples of law enforcement cases involving fraud and racketeering and tips on form preparation and filing SARs. The document is available on FinCEN's website at: [http://www.fincen.gov/pub\\_reports.html#sar\\_tti](http://www.fincen.gov/pub_reports.html#sar_tti).

### Ombudsman Report

NCUA's Ombudsman has received 42 complaints and requests for information from 3 credit union officials, 39 credit union members, the public and other businesses through May 30, 2007.

### Future Board Items

- Final Rules Part 748 & Part 749;
- Advance Notice of Proposed Rulemaking Part 703, Foreign Currency Denominated Investments;
- NCUSIF quarterly briefing; and
- 2007 NCUA operating budget reprogramming



## My Government Listens

**Date:** Thursday, August 2, 2007  
**Who:** Vice Chairman Hood  
**Event:** NCUA's Small Credit Union Workshop  
**Location:** Cincinnati, OH  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Thursday, August 2, 2007  
**Who:** Board Member Hyland  
**Event:** OR-WA CUES Meeting  
**Location:** Sunriver, OR  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Friday, August 3, 2007  
**Who:** Chairman Johnson  
**Event:** National Youth Involvement Board Annual Conference  
**Location:** San Antonio, TX  
**Contact:** Linda Queen at [lqueen@ncua.gov](mailto:lqueen@ncua.gov) or 703-518-6309

**Date:** Wednesday, August 8, 2007  
**Who:** Board Member Hyland  
**Event:** CU Managers' Conference  
**Location:** Las Vegas, NV  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Thursday, August 9, 2007  
**Who:** Board Member Hyland  
**Event:** NASCUS Conference  
**Location:** Ft. Lauderdale, FL  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Friday, August 10, 2007  
**Who:** Vice Chairman Hood  
**Event:** 9th Annual AACUC Conference  
**Location:** Baltimore, MD  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Friday, August 10, 2007  
**Who:** Board Member Hyland  
**Event:** 9th Annual AACUC Conference  
**Location:** Baltimore, MD  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Tuesday, August 14, 2007  
**Who:** Board Member Hyland  
**Event:** NCUA Management Meeting  
**Location:** Denver, CO  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Wednesday, August 15, 2007  
**Who:** Board Member Hyland  
**Event:** Outreach Taskforce Town Hall Meeting  
**Location:** Denver, CO  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Tuesday, August 21, 2007  
**Who:** Chairman Johnson  
**Event:** 2007 Defense Credit Union Council Conference & Showcase  
**Location:** Spokane, WA  
**Contact:** Linda Queen at [lqueen@ncua.gov](mailto:lqueen@ncua.gov) or 703-518-6309

**Date:** Tuesday, August 28, 2007  
**Who:** Chairman Johnson  
**Event:** 2007 Summer Networking Conference  
**Location:** Vail, CO  
**Contact:** Linda Queen at [lqueen@ncua.gov](mailto:lqueen@ncua.gov) or 703-518-6309

**Date:** Tuesday, August 28, 2007  
**Who:** Vice Chairman Hood  
**Event:** WOCCU's African Credit Union Regulators' Conference  
**Location:** Nairobi, Africa  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Thursday, September 6, 2007  
**Who:** Vice Chairman Hood  
**Event:** North Carolina Credit Union Marketing Conference  
**Location:** Asheville, NC  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Friday, September 7, 2007  
**Who:** Vice Chairman Hood  
**Event:** Maine Credit Union League Roundtable  
**Location:** Portland, ME  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Monday, September 10, 2007  
**Who:** Chairman Johnson  
**Event:** NAFCU 2007 Congressional Caucus  
**Location:** Washington, DC  
**Contact:** Linda Queen at [lqueen@ncua.gov](mailto:lqueen@ncua.gov) or 703-518-6309

**Date:** Monday, September 10, 2007  
**Who:** Vice Chairman Hood  
**Event:** NAFCU 2007 Congressional Caucus  
**Location:** Washington, DC  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Monday, September 17, 2007  
**Who:** Vice Chairman Hood  
**Event:** CUNA Payments Conference  
**Location:** Washington, DC  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

**Date:** Monday, September 17, 2007  
**Who:** Board Member Gigi Hyland  
**Event:** Management Perspective Seminar  
**Location:** Queenstown, New Zealand  
**Contact:** Nina Bullard at [nbullard@ncua.gov](mailto:nbullard@ncua.gov) or 703-518-6318

**Date:** Friday, September 21, 2007  
**Who:** Vice Chairman Hood  
**Event:** Members United Corporate FCU Financial Strategies Workshop  
**Location:** Syracuse, NY  
**Contact:** Sally Ridgely at [sridgely@ncua.gov](mailto:sridgely@ncua.gov) or fax: 703-519-4017

# Hood unveils “Blueprint for 2020” initiative

Vice Chairman Rodney E. Hood announced a new initiative—“Blueprint for 2020: A Plan to Strengthen the Future of Credit Unions”—that encourages working together to increase student membership, employment, and participation throughout the credit union industry at the Big Ten Credit Union Conference held at the University of Notre Dame in South Bend, Ind., June 9, 2007.

Hood said that as the baby boomer generation begins to retire, the financial services landscape will change significantly and few candidates from generations “X” and “Y” are waiting to assume roles in this arena.

“While hedge funds and private equity are the careers du jour, America’s financial services providers will need dedicated professionals in marketing, operations, accounting, risk management, compliance, and sales in order to remain viable, sustainable and competitive,” said Vice Chairman Hood.

“I want to work with a group of credit union and university leaders to develop a program that fosters future credit union leaders,” Hood explained, crediting John Milazzo, President and CEO of Campus Federal Credit Union in Baton Rouge for helping inspire the idea along with positive contributions from Tyrone Burke, President and CEO of Georgia State Federal Credit Union in Atlanta.

“I intend to convene an informal study group of college officials and credit union leaders to draft a framework that can be used to attract well-trained and highly competent new credit union employees, board members, supervisory committee members and credit committee members,” Hood said.

2020 Initiative participants will include accredited colleges and universities with credit unions in their field of membership, such as: Community Colleges, Technical Colleges, HBCU’s (Historically Black Colleges and Universities) and MBA Programs. Mr. Hood outlined the desired results as follows:

- Create credit union internship and mentoring opportunities for college students;

- Develop strategic consulting projects for MBA students;
  - working with credit unions to perform management assessment of timely issues, such as membership growth, marketing campaign, product analysis, and membership segmentation
- Form relationships with representatives from college career planning and placement offices to participate in career fairs;
- Create symposia and curricula for students to receive academic credit while interning at credit unions;
- Provide low-income designated credit unions with contributions to pay for summer interns; and

- Cultivate new board members, supervisory committee, and credit committee members for the credit union system.

Initiative success, Vice Chairman Hood said, could be measured as follows:

- Increase in the percentage of career fairs that involve credit unions;
- Rise in the number of interns within the credit union system;
- Growth in CU membership among Gen Y; and
- New employees with core competencies for the future financial services landscape.

## Chairman testifies

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protected. During safety-and-soundness exams, NCUA clearly communicates credit union responsibilities for complying with consumer protection rules, including Reg Z. We also communicate penalties that could result from violations. When a violation is noted, corrective actions are taken,” Chairman Johnson said.

While addressing this topic, the Chairman highlighted the importance of open communication between consumers and NCUA via a consumer complaint process, which includes a complaint center accessible on the agency’s website.

Chairman Johnson concluded her testimony by assuring the Subcommittee that NCUA is committed to working with Congress, the Federal Reserve, and federal regulators in the future to enhance Regulation Z, and she also emphasized

the vital role financial education plays in protecting American consumers.

“NCUA is assessing the changes proposed by the Fed, and generally supports enhancements regarding the clarity and consistency of consumer information. Any changes should aid consumers in identifying rates and conditions surrounding the use of credit cards and facilitating comparisons so consumers can make informed choices. I also want to take this and every opportunity to plug Financial Literacy—NCUA constantly exhorts the credit union industry to promote financial education to credit union members, not as a panacea or a substitute for strong regulation, but as an ounce of prevention that can empower consumers to make the right choices in financial services.”



New Orleans, La., June 7, 2007— Vice Chairman Rodney E. Hood with Louisiana League Vice President Vince Liberto at the 33rd Serving the Underserved Conference hosted by the National Federation of Community Development Credit Unions. As keynote speaker of the event, Vice Chairman Hood outlined simple steps credit unions can take to help serve the underserved and ensure home buyers remain home owners.

## Hyland sees credit unions at crossroads

NCUA Board Member Gigi Hyland spoke at the National Federation of Community Development Credit Unions 33rd Annual Conference on Serving the Underserved in New Orleans, La., June 8, 2007, and she also visited seven small credit unions, meeting with their Boards and staff.

At the Conference, Board Member Hyland praised the Federation for its partnership with community development credit unions (CDCU) while reaching out to low-income communities—often overlooked by commercial banks and targeted by predatory lenders—and she stressed that “credit unions are at the crossroads.” Several areas she highlighted include:

- Needed regulatory challenges, flat yield curves, diminishing ROA, and slow membership growth;
- Increased need for strategic planning, especially among credit unions under \$100 million in assets, which examines membership segmentation, responsiveness to member needs, and reflection of membership within the Board and staff;
- Renewed commitment to cooperative spirit of the credit union system and

expansion of partnerships through CUSOs and community organizations;

- Enhanced commitment to members, or “member-centricity,” especially in light of increased attention from Congress, media, and fellow regulatory agencies upon this area; and
- Recognition that NCUA examinations need to keep up with the times as well and that the unique circumstances that low-income designated credit unions and CDCUs face must be taken into account.

Board Member Hyland provided an update regarding NCUA’s Outreach Task Force, and concluded her remarks by encouraging the audience to continue fulfilling their mission.

“I think that credit unions are chartered to do one thing very well—serve your members,” said Hyland. “Regardless of your charter type or whether you have a ‘low-income’ designation or are a CDCU, your goal is to serve your members. If you believe in credit unions, then you have to believe in the members.”



*Washington, D.C., June 13, 2007—NCUA Board Member Gigi Hyland with U.S. Small Business Administration (SBA) Administrator Steven C. Preston at the announcement of SBA’s new Patriot Express Pilot Loan Initiative, a streamlined loan program for veterans and members of the military community wishing to establish or expand small businesses. Board Member Hyland serves as NCUA liaison to the SBA.*